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Day 1 Session 3

Performance Based Contracting

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The background of the slide features several concentric, light blue circular ripples that resemble water droplets or ripples on a pond, scattered across the lower half of the slide.

What is Performance Based Contracting?

- A method for improving the delivery of basic services – such as water and electricity
- Service providers are paid for delivery of pre-agreed upon service outputs and performance

Five Core Concepts of Performance Based Contracts

1. Payment on Delivery of Results
 2. Innovation and Efficiency
 3. Mobilization of Commercially Viable Entities
 4. Monitoring & Independent Verification
 5. Sustainability
- 

Performance Based Contracts
Core Concept #1:
Payments on Output Delivery

- Shifts performance risk to provider
- So the service provider is *accountable*.

Performance Based Contracts

Core Concept #2:

Innovation & Efficiency

- Predetermined payments based on pre-agreed results instead of inputs
- Incentives provided for innovation and efficiency – based on set quality level
- Competition or benchmarking can lead to value-for-money

Performance Based Contracts

Core Concept #3:

Mobilization of Commercially Viable Entities

- Encourages private sector to serve targeted customers
- Can offer financing up front and through incentives deliver performance and results
- Commercially viable public entities will participate, when financially viable project exists

Performance Based Contracts

Core Concept #4:

Monitoring & Independent Verification

- Internalizes tracking of results
- Disbursement is on proven results

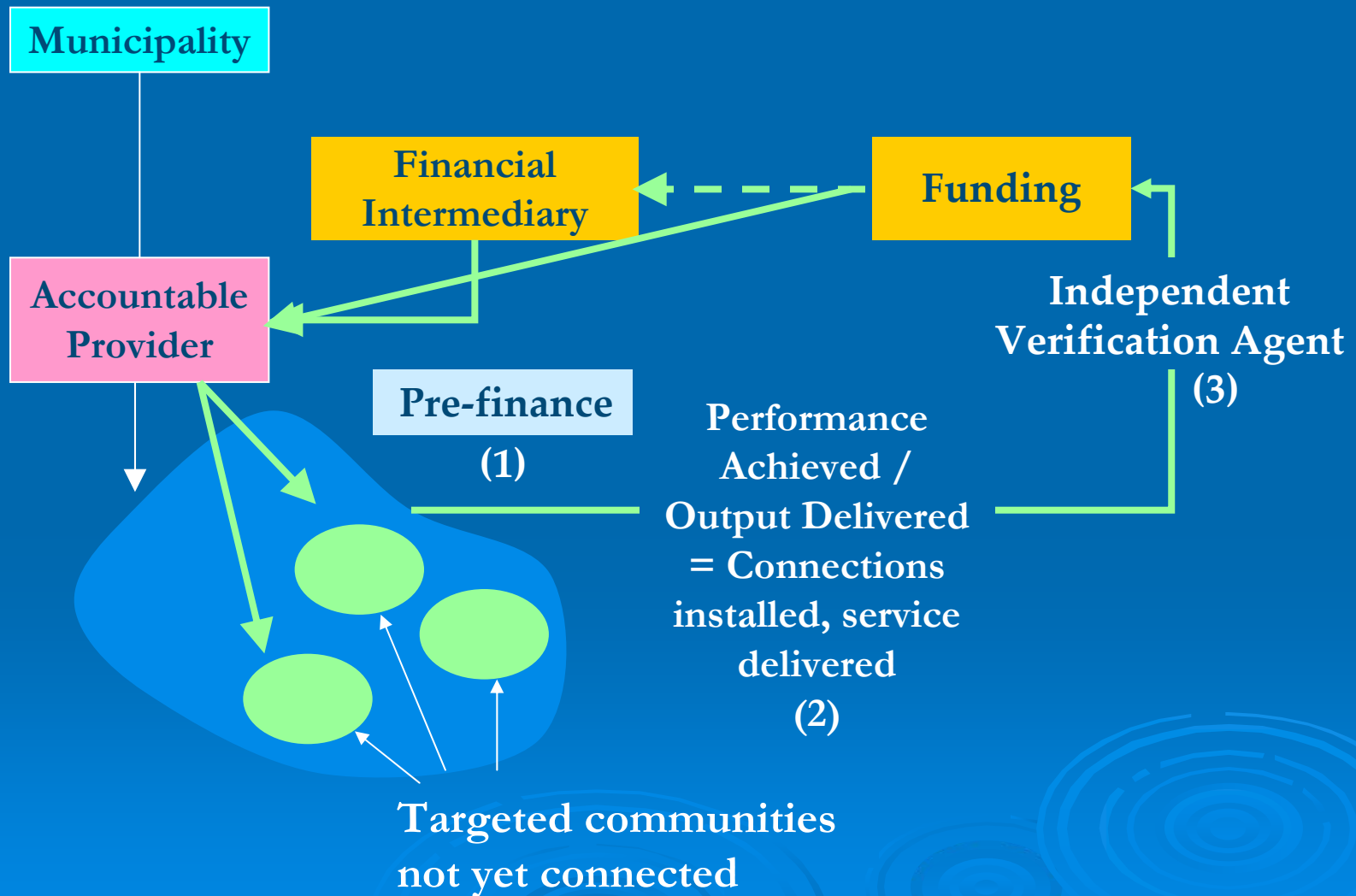
Performance Based Contracts

Core Concept #5:

Sustainability

- Cost of services linked to demand and consumption levels
- Emphasis is on final results and source of future funding

Typical Performance Based Contracts Project Structure Demonstrates How Core Concepts are Applied



Experience in South East Asia

- Manila Water Company - Philippines
- Water Service in Provincial Towns - Cambodia